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WESTERN WARNER OILS LTD.

1970 Annual Report

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November 30, 1970

To the Shareholders:

Ladies and Gentlemen,

On behalf of your Board of Directors we are pleased to report on the activities of Western Warner since the last Annual Report. We delayed this Report for about two weeks so we could tell you about the sale of our Pembina land as of November 30, 1970. The transaction has been completed, accordingly in addition to the normal July 31, Financial Statements, we have included the unaudited Projected Pro Forma Balance Sheet as of November 30, 1970, prepared by the Company's Auditors, which reflects the financial position of your Company after the sale.

Sale of Pembina Oil Property:

On November 30, 1970 we sold our Pembina property for \$400,000.00 cash. This is a 9 to 10 year payout which is about twice the usual time period.

We were not anxious to sell but if we had retained the property we were faced with two considerations. Firstly, though substantial oil reserves are present, unfortunately their producing rate is slow. To increase the rate of production a water flood is necessary. This will require the investment of several hundreds of thousands of dollars. With the existing conditions in the money market it is difficult to obtain funds for this type of proposition. The purchaser is a large company and they are prepared to invest the necessary funds. The price they paid us is generous, based on rate of return, and we wish them success with the project. Secondly we wanted to accelerate the exploration work on our phosphate property and our United Kingdom Oil and Gas Production Licenses. These two assets are discussed below.

Phosphate Property Development:

During the summer of 1970 additional field work was carried out with encouraging results. We were fortunate in obtaining the services of a leading geologist from Wales who is also an authority on open-pit mining. His preliminary report indicates three proven locations which appear to be ideally suited for open-pit mining operations. His detailed report is expected in February and it will guide our program for 1971.

In the past year, through the sponsorship of Western Warner, a new process for beneficiating phosphate ore has been developed. It is possible with this process to upgrade raw ore by as much as 25%. A 400 pound sample of ore from our claims assayed 26% in the raw form.

After beneficiating with our process we recovered 308 pounds of ore with 32.5% P_2O_5 and the 92 pounds of residual ore had 19% P_2O_5 . This residual material will be stockpiled. Other tests of our ore, after beneficiating, assayed as follows:

Test 2.	32.5% P_2O_5
Test 3.	28.7% P_2O_5
Test 4.	38.9% P_2O_5
Test 5.	42.9% P_2O_5
Test 6.	33.0% P_2O_5

Phosphate rock used in fertilizer must exceed 31% P O content.

An application, on behalf of Western Warner Oils Ltd., for the patent rights to this process has been made. We think that our process is more efficient and economical than present methods. The beneficiating process is unique and we think that patents will be granted to your company. If patents are granted we will investigate licensing the process to producers in the United States.

A great deal has been said and written about phosphate and pollution but remember this: all forms of life require phosphorous and cannot live without it. Phosphate as a life and growing process is going to be with us forever. The detergent industry, where most of the criticism has been directed, is a separate market entirely. The market for our phosphate will be the fertilizer industry. All phosphate used for fertilizers in Canada is imported and costs between \$15,000,000 and \$20,000,000 per year. For the first time in three years the fertilizer market looks favorable and the supply-demand ratios for the three major plant nutrients, particularly phosphate, are in better balance.

We think the way for shareholders to appraise this phosphate project is:

1. Encouraging results are being obtained.
2. A lot of work still has to be done.
3. We will know considerably more during the coming year.

Enclosed is a sachet of phosphate from your company's properties. The raw ore was crushed and beneficiated by Western Warner's process.

South West England
and Bristol Channel
Acreage:

Based on a study that showed a possible geological correlation of Prudhoe Bay, The Arctic, South West England and The North Sea we applied for petroleum and natural gas production licenses in South West England and the Bristol Channel coastal areas. Our application was made in May 1969 and acknowledgement of acceptance was received in September 1970.



At the time of our application Prudhoe Bay had been discovered but no large oil finds had been made in the North Sea. Since then two enormous oil strikes in the North Sea have been announced. Indications are that they rival Prudhoe Bay in size and producibility. Large untapped strata, suspected of being rich in oil are present beneath British waters. A London geologist recently said, "When the untouched strata are drilled, the results will shake the living daylights out of energy economists." We believe our land correlates with this geological interpretation. These great discoveries in the North Sea enhance our South West England and Bristol Channel acreage.

A big natural gas field is being developed at Lockton, England. We understand that during November, another wildcat, twelve miles from Lockton, has found a large natural gas payzone. The presence of major reservoirs of hydrocarbons on mainland England is thus further confirmed.

A 10,000 foot well, to be drilled by two large American companies, in South West England has been announced. It is expected to start in the Spring of 1971. Though it will be drilled as a "tight hole" (this means the companies will apply maximum security) some clues as to its progress may become available.

Our Production Licences cover 240,000 acres and embrace two large structures, the Marshwood Anticline and the Somerset Dome. They cover the coastal, inland and fore shore tracts of Lyme Bay (English Channel) to Bridgewater Bay which is a South Eastern embayment of the Bristol Channel. Special emphasis was placed on obtaining coastal tracts with Bristol Channel and English Channel exposure.

Initial geological investigations and geophysical reviews have indicated the presence of a thick Mesozoic Marine and evaporite sequence which overlies excellent reservoir sandstones of Permo-Triassic age. A deeply buried Coal Measure Basin is conjectured in the Bristol Channel area which could be a source of methane generation similar to the North Sea accumulations.

In the spring we will do further surface mapping of known broad anticlines affecting Jurassic and Cretaceous Strata on the South Coast of England. Upon the completion of this structure mapping we will seismograph our Production Licences. A significant fact is that there has been a large increase in geophysical exploration activity in the English Channel and the South West approaches by the international oil companies.

Much more oil will have to be found to relieve Europe's dependence on Middle East oil. It is estimated that Great Britain alone will require 3.6 million barrels of oil per day in the next few years and that Western Europe will require 22 million barrels per day by 1980. As you can see we are playing for huge stakes in this venture.

Arctic Islands:

Though oil has not been discovered it appears to be only a matter of time. You will recall the comments about our United Kingdom acreage that the Arctic is part of the great oil play, as we see it, from Prudhoe Bay, The Arctic, South West United Kingdom and the North Sea.

Western Warner has representation in over 2,200,000 acres in the Canadian Arctic. There are 54 permits which extend from 71d 30m to 81d 20m North Latitude and 78d 30m to 138d West Longitude. Our interest in this large spread of land is from 5% to 10%. We think the Arctic search will move deeper (north) into the Sverdrup Basin and this is where we have our largest holdings. We have 5% in 995,804 acres and 10% in 368,551 acres on or adjacent to Axel Heiberg and Ellesmere Islands. Naturally we consider this to be the most attractive of our Arctic acreage.

The Panarctic well on King Christian Island is blowing wild with a huge gas flow and shows the presence of an enormous gas reservoir. It has already been called the biggest gas strike in North America. Our Axel Heiberg and Ellesmere holdings are in the same geologic province as the King Christian well. We have been informed that three wells may be drilled on Axel Heiberg and Ellesmere within the next 18 months.

Wollaston Lake

Uranium:

Your company retains a one per cent production royalty, free and clear of any costs, on over one million acres in the Wollaston Lake Basin, Saskatchewan.

Gulf Minerals, a subsidiary of Gulf Oil, recently announced a uranium ore deposit large enough to warrant the building of a mill to process 20,000 tons of ore per day. Marketing arrangements have been arranged and plans for the construction of the mill are underway.

Exploration continues in the Basin but no new significant discoveries have been reported. Our interest gives Western Warner good representation in the event of another strike.

Stock Exchange Listings:

Presently your company's shares are listed solely on the Calgary Stock Exchange, Calgary, Alberta, Canada. Western Warner will apply for listing on a larger Stock Exchange in Canada and also the London Stock Exchange in England.

Our British acreage is an important part of our plans and if United Kingdom investors want to participate they should be able to do so through their own Exchange. We would certainly be pleased to have many United Kingdom shareholders.

Summary:

Western Warner is fortunate in its shareholders. They have shown they are not afraid to take risks and that they are ready to participate in the exploration for natural resources. Our phosphate property and beneficiating process show promise. We think we have the best acreage in South West United Kingdom. In the Arctic, with exploration moving deeper into the Sverdrup Basin, we think our holdings are among the best. Your directors hope that the present assets will reward the shareholders.

Respectfully submitted to the shareholders,
Board of Directors.

Auditors' Report

To the Shareholders of

Western Warner Oils Ltd.

We have examined the balance sheet of Western Warner Oils Ltd. as at July 31, 1970 and the statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at July 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
October 26, 1970

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

WESTERN WARNER OILS LTD.

(Incorporated under the laws of Canada)

Balance Sheet - July 31, 1970

(with comparative figures at July 31, 1969)

Assets

	<u>1970</u>	<u>1969</u>
CURRENT ASSETS		
Cash	\$ 4,122	\$ 8,146
Accounts receivable	9,911	7,436
Inventory, at market value	1,934	1,687
Prepaid expenses	1,765	—
	<u>17,732</u>	<u>17,269</u>
 OTHER ASSETS		
Refundable performance deposits	6,199	6,199
Royalty interests, at cost	161,285	161,285
	<u>167,484</u>	<u>167,484</u>
 CAPITAL ASSETS, at cost		
Petroleum properties and development thereof	292,248	291,876
Equipment	60,960	60,132
	<u>353,208</u>	<u>352,008</u>
Less accumulated depreciation and amortization (note 1)	22,917	14,265
	<u>330,291</u>	<u>337,743</u>
Mining claims	2,022	2,022
Preliminary development, mining claims	25,038	18,230
Preliminary costs, U.K. production licenses	859	—
	<u>358,210</u>	<u>357,995</u>
	 <u>\$ 543,426</u>	 <u>\$ 542,748</u>

Liabilities

	<u>1970</u>	<u>1969</u>
CURRENT LIABILITIES		
Bank loan (note 2)	\$ 80,000	\$ 104,000
Accounts payable and accrued liabilities	18,493	2,366
9% Shareholders' loans	14,000	—
	<u>112,493</u>	<u>106,366</u>

Shareholders' Equity

CAPITAL STOCK (note 3)

Authorized

5,000,000 Shares of no par value

Issued

3,647,285 Shares (3,642,285 shares - 1969)	850,934	848,934
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DEFICIT	<u>420,001</u>	<u>412,552</u>
	<u>430,933</u>	<u>436,382</u>

Approved by the Board

Director G. E. Evans

Director J. B. McIntyre

\$ 543,426

\$ 542,748

WESTERN WARNER OILS LTD.

Statement of Income

YEAR ENDED JULY 31, 1970

(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
Crude oil and gas sales	\$ 88,686	\$ 69,946
Less royalties	23,784	12,272
	<u>64,902</u>	<u>57,674</u>
Production expenses		
Operating costs	18,058	14,671
Lease rental and permits	3,062	11,330
Amortization of petroleum properties	6,575	5,322
Depreciation of equipment	2,077	1,694
Interest	9,634	9,074
	<u>39,406</u>	<u>42,091</u>
Administrative and general expenses		
Administration fee	7,200	7,200
Managing director's salary	7,200	7,200
Professional fees	5,114	1,843
Shareholders' information	1,350	960
Transfer and stock exchange fees	2,260	2,057
General and office	6,799	7,009
	<u>29,923</u>	<u>26,269</u>
	<u>69,329</u>	<u>68,360</u>
Operating loss	4,427	10,686
Other income	338	690
	<u>4,089</u>	<u>9,996</u>
Loss before loss on disposal and abandonment of properties	4,089	9,996
Loss on disposal and abandonment of properties	3,360	14,277
LOSS FOR THE YEAR (note 4)	<u>\$ 7,449</u>	<u>\$ 24,273</u>

Statement of Deficit

YEAR ENDED JULY 31, 1970

(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
Balance at beginning of year	\$ 412,552	\$ 388,279
Net loss for the year	7,449	24,273
BALANCE AT END OF YEAR	<u>\$ 420,001</u>	<u>\$ 412,552</u>

WESTERN WARNER OILS LTD.

Statement of Source and Application of Funds

YEAR ENDED JULY 31, 1970

(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
SOURCE OF FUNDS		
Loss for the year	\$ (7,449)	
Items not involving current funds		
Depreciation and amortization	8,652	
Loss on disposal and abandonment of properties	3,360	
	<u>4,563</u>	
Proceeds from sale of fixed assets	—	\$ 45,000
Issue of shares	2,000	195,064
Reduction of refundable deposits	—	1,016
	<u>6,563</u>	<u>241,080</u>
APPLICATION OF FUNDS		
Loss for the year	—	24,273
Items not involving current funds		
Depreciation and amortization	—	(7,016)
Loss on disposal and abandonment of properties	—	(14,277)
	—	<u>2,980</u>
Acquisition of royalty interests	—	127,138
Additions to capital assets	12,227	86,386
	<u>12,227</u>	<u>216,504</u>
DECREASE (INCREASE) IN WORKING CAPITAL DEFICIENCY	(5,664)	24,576
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	<u>89,097</u>	<u>113,673</u>
WORKING CAPITAL DEFICIENCY AT END OF YEAR	<u>\$ 94,761</u>	<u>\$ 89,097</u>

WESTERN WARNER OILS LTD.

Notes to Financial Statements

YEAR ENDED JULY 31, 1970

1. DEPRECIATION AND AMORTIZATION

Petroleum properties and equipment are being written off on a unit of production basis.

2. BANK LOAN

The bank position is secured by a general assignment of the company's interest in certain producing properties and the proceeds of production therefrom.

3. CAPITAL STOCK

During the year the company issued 5,000 shares in settlement of an account payable in the amount of \$2,000.

4. INCOME TAXES

For income tax purposes, the company claims lease acquisitions, exploration and drilling costs and capital cost allowances, in an amount sufficient to eliminate taxable income. The amount so claimed may be in excess of, or less than the related depletion, amortization, depreciation and profit or loss on disposal or abandonment of properties as reflected in the accounts.

It is the company's policy not to reflect taxes deferred as a result of the difference between the amounts so claimed for tax purposes from that reflected in its accounts. This differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants under which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed in current and prior years, the cumulative amount of deferred tax debits to the company's year end at July 31, 1970 would have been \$14,580.

5. SUBSEQUENT EVENTS

On September 24, 1970 an option to purchase 150,000 shares of the common stock for the price of 55c per share (quoted market value at time of option was 40c per share) was granted to the company's managing director. Such option expires on September 24, 1973.

WESTERN WARNER OILS LTD.

(Incorporated under the laws of Canada)

Projected Pro Forma Balance Sheet - November 30, 1970

(unaudited)

This statement has been prepared to give effect to the following transactions, none of which have been finalized as of the date hereof:

1. Projection of operations for the month of November, 1970.
2. Sale of Pembina petroleum properties for \$400,000 on November 30, 1970.
3. Repayment of bank loan of \$74,000.

Assets

CURRENT ASSETS

Cash	\$ 333,998	
Accounts receivable	9,459	
Marketable securities, at quoted market value	<u>4,703</u>	\$ 348,160

OTHER ASSETS

Royalty interests, at cost		162,921
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CAPITAL ASSETS, at cost

Furniture and equipment	4,028	
Less accumulated depreciation	<u>1,341</u>	
	2,687	
Petroleum properties and development thereof	61,539	
Mining claims	2,022	
Preliminary development, mining claims	25,601	
Preliminary costs, U.K. production licenses	<u>859</u>	92,708
		<u>\$ 603,789</u>

Liabilities

CURRENT LIABILITIES

Accounts payable and accrued liabilities	22,315	
9% Shareholders' loans	<u>14,000</u>	\$ 36,315

Shareholders' Equity

CAPITAL STOCK

Authorized

5,000,000 Shares of no par value

Issued

3,647,285 Shares	850,934
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DEFICIT

<u>283,460</u>	567,474
	<u>\$ 603,789</u>

Accountants' Comments

The accompanying projected pro forma balance sheet of Western Warner Oils Ltd. was not audited by us and accordingly we are not in a position to express an opinion on it.

CALGARY, Alberta
November 23, 1970

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Directors:

William C. Craig

Cameron Evans

George E. Evans

Kenneth Goddard

Norman MacKinnon

John B. McIntyre

E. Hugh Parker

Officers:

President, G. E. Evans

Vice President, J. B. McIntyre

Secretary-Treasurer, W. C. Craig

Bankers:

Royal Bank of Canada

Centre Street and Eighth Avenue Southwest,
Calgary, Alberta, Canada

Registrar and Trust Company:

Crown Trust Company,
Crown Trust Building,
Calgary, Alberta, Canada.

Auditors:

Thorne, Gunn, Helliwell & Christenson,
Chartered Accountants, Calgary, Alberta, Canada.

